

Reasons for setting up a business?

- Life long dream of running your own business
- Balance your work with your family on your own terms
- Bored at your job
- It isn't necessarily easier than working for someone else, but can be more rewarding, and not just from an economic point of view, but also gives a great sense of achievement.

Taking the First Steps

- Decision to acquire an office or work from home?
 - How many clients do I have?
 - Do I need staff and how many if I do?
 - Incorporate/Sole Trader (will deal with this below). (To incorporate click [here](#))
 - Advertising General ad in newspaper isn't very efficient Yellow Pages is a must.
- However, you must have something to catch viewer's attention instantly.

Writing articles (weekly/monthly)/Website – See business section of local papers each week. Same people/businesses writing articles.

- Affiliation fees to institute/regulatory bodies
- Business Insurance (Professional Indemnity Insurance)
- Shop around. Massive difference between providers even though the same cover may be provided.

Set up costs

- Equipment
- Furniture
- Technology

Have a well thought out business plan / Cashflow Forecast

- Very good aids can be found on www.aib.ie under Business section in the Tools sub-heading. Other banking websites also offer similar services if they are your preference.
- Business plan makes you think ahead and pre-empt business specific costs and hindrances while it may also alert you to opportunities you hadn't identified.
- Cashflow Forecast tools can be found in similar sections to business plans in banking

websites. Very useful tool which will make you forecast when income & expenses are likely to occur and will let you know what kind of finance you will need available at certain times in a year.

- Try and forecast for 24-36 months. Banks / Financiers are encouraging new businesses who are looking for credit facilities to prepare these. It makes potential business owners plan ahead.

- It is often advisable to have a minimum of 6 months cash flow in the bank before starting out. This can be in the form of an overdraft/loan facility. However, this is dependent on the type of business you intend operating. On average, a Solicitor/Architect/Accountant is six months waiting to receive money from the day he/she begins work/meets new client for first time. This is different from a person who operates a cash business however.

Common Mistakes of businesses

- Over Borrowing
- Too much overhead/costs
- No time recording system
- Low quality work
- Over-dependence on a single client
- Not providing for retirement
- Not paying taxes on time – ideally you pay your tax by direct debit. This avoids a sting when this becomes payable each year.
- Isolation – Join a network or maintain contact with like minded businesses and pool your expertise

Sources of Growth of Business

- Purchase of practice/existing business (price depends on business. For example, accountancy practices are generally purchased for between .8 - 1.25 times Turnover of RECURRING FEES)

- External Sources of growth:

1. Third party referrals

2. Walk-ins

3. Previous clients

Internal Sources of Growth

- New services to existing clients (A solicitor prepares a Will on behalf of a client. Immediately the Solicitor sees the potential of the client with assets held and also high possibility of working with the next generation)

- Referrals by existing clients.
- Profitability

Charge out rate

- Determine charge out rate per hour
- Review these regularly
- Chargeable Time:
 - 40 hours per week doesn't necessarily mean 40 hours of chargeable time. Often, the best business you do in a week is non-chargeable (i.e. meeting new customers/following up on progress with existing customers/network groups etc)
 - Create realistic expectation, targets and budgets (i.e. 90% chargeable time while working. Allow for non-chargeable time suggested above. Therefore in a 40 hr week, you may have 5 hours non-chargeable and therefore 31.5 hrs (35Hrs x 90%) of chargeable time. The other 3.5 hrs will be lost to administration etc)
 - Record time – This gives you a measure of performance to work with each week. Ideally, fill in a timesheet daily. They can be tedious, but they will highlight whether or not you and your staff are working to capacity.
 - Owner Time/Partner Time is premium time in any business – No free time, no new business

Work in Progress and Billing

- Detail your bills with many words. However, only use a single figure on the face of your invoice. Avoids conflict as to what value you charge for any one item.
- Bill close to the moment of happiness (an accountant will bill once he informs the client he has secured a tax refund. A Solicitor will bill on close of sale of house. A builder will bill on completion of stage etc.)
- Bill new clients early, even if low value – test the water
- Bill in regular intervals if possible. Similar to your income tax bill, a client may not appreciate a large bill and will argue this amount more than if the same amount was billed in 2/3 invoices.
- Large one-off bills encourage clients to negotiate downwards the fee. Do not carry large Work in Progress throughout year. As above, bill regularly

- Agree prices up front for specific work. Agree this in writing if possible while also noting that work outside of agreed service is subject to further charges. Follow up on outstanding bills. Get statements out quickly – 30days.

- For businesses with repeat clients, you have to balance between harassing the client and a gentle reminder of outstanding fees.
- See can you put your clients on direct debit
- Offer early settlement discounts
- May be possible to have a menu of services and how much each service costs. This will avoid conflict at payment stage

Decision to Incorporate or Operate as a Sole Trader

- Limited Liability. A Company is a separate legal entity. That means in most circumstances any liabilities of the Company are ring-fenced to the Company and the Shareholders personal assets are secure in the event of a failed business, which has high debts. (Note banks and many suppliers are now insisting on shareholders signing letters of guarantee on behalf of their Company making them responsible for outstanding debts etc).

- Usually, if profits are expected to be large, the advice is given to trade under a Company for tax reasons. This is because profit on your trade is taxed at only 12.5%, whereas if you operated as a sole trader, you could be liable to pay tax at the higher rate (currently 41%) of tax on your profits.

- General rule of thumb: If you are setting up a business where profits are likely to be small for first couple of years and gradually increase, you would trade under a sole trader/partnership type organisation. As profits increase, the likelihood is that you would incorporate and begin to trade as a company (NB all other issues here should be accounted for also before using this reasoning).

- Government have recently announced an incentive to set-up new companies: New start-up companies which commence trading in 2009 (Budget 2010 has extended this for 2010) will be exempt from tax, including capital gains, in each of the first three years to the extent that their tax liability in the year does not exceed €40,000. However, this has to be a new business and you cannot just set up a company to trade a previous sole trader business.

- Extraction of Profits
 - As a Company is a separate entity, extraction of funds is normally subject to tax.
 - As a sole trader, the funds are your own. There is far more scope for pension provisions when operating under a Company than as a personally owned business.

- There are more filing requirements and administration for a Company than a Sole Trader. This usually means higher annual costs.

